

A Letter from the Chairman

Fiscal year 1998 proved to be another successful year for the United States Postal Service. We saw continued improvement in our overnight service performance and a radical improvement in our two- and three-day service. This was accomplished without negatively impacting our financial performance, where, for an unprecedented fourth straight year, we had a positive net income that goes directly to the bottom line to reduce our negative equity, which had accumulated in prior years.

This was also a critical year for the Board of Governors of the Postal Service in our oversight of postal activities. These responsibilities include directing and controlling expenditures of the Postal Service, reviewing its practices, participating in long-range planning, and setting policy on all postal matters. Many of these activities are coordinated through four committees of the Board: Audit, Capital Projects, Compensation, and Strategic Planning. While these committees do not have approval authority, they provide a vital link between postal operations and the Board on activities reserved for Board approval.

During 1998, we were called on to exercise two of our most important functions as Governors. In May, former Postmaster General Marvin Runyon returned to private life after nearly six years as Postmaster General/CEO of the Postal Service. After a thorough search and consideration of both internal and external candidates, the Governors selected Chief Operating Officer William J. Henderson as the 71st Postmaster General, the first career employee in over 13 years to lead the organization.

In July of 1997, the Postal Service filed a rate case (R97-1) with the Postal Rate Commission, which was returned by the Commission in May 1998 and considered by the Governors at the July 1998 Board meeting. With just some minor exceptions, which were remanded back to the Commission for further consideration, the Governors accepted the Recommended Decision of the Commission. The remanded items were subsequently returned by the Commission and approved as well. The Board set January 10, 1999, for implementation of these rates. This was done after careful consideration of customer and congressional input, management's financial forecasts,

and what we believed to be in the best interests of our customers and the Postal Service.

From the beginning, in July of 1997, this rate case was about maintaining a strong universal mail service. The rate adjustment was designed to provide a continuing investment in America's communications future. We saw the need to continue to invest in automation and other infrastructure improvements to keep the Postal Service efficient and to hold down rates in the future and improve the consistency in home delivery. In 1998, the Board approved a capital budget plan of nearly \$5.6 billion.

This past year we also saw the results of a Board-initiated study of diversity in the Postal Service. The independent study conducted by Aguirre International identified opportunities for the Postal Service to improve its Diversity Program in the recruitment, training, and promotion of minorities and females, as well as supplier diversity initiatives. Management, at the request of the Board, has established a reporting framework to keep members apprised of progress made in the implementation of recommendations resulting from the study. The fair and equitable treatment of all employees is a high priority of the Board members, and the study brought into focus areas where improvement was needed.

As we move into the new year, we are mindful of the ongoing labor negotiations with our unions, the upcoming consultative process with our management associations, and pending legislation in Congress which could impact the way we do business in the future. We are confident the results of all these efforts will be in the best interest of our customers, our employees, and the United States Postal Service. We have confidence in the leadership skills of Postmaster General Bill Henderson and his management team, and we will continue to provide the necessary support, in our oversight role, to ensure a strong and united Postal Service into the new millennium.



Sam Winters
Chairman
Board of Governors